

Message Text

UNCLASSIFIED

PAGE 01 STATE 064724

61

ORIGIN EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 CAB-05 CIAE-00 COME-00

DODE-00 DOTE-00 INR-07 NSAE-00 FAA-00 L-02 H-02 TAR-01

/047 R

DRAFTED BY EB/OA/AVP:JCOOK:JO

APPROVED BY EB/OA/AVP:DBORTMAN

DOT - LICARI

----- 052007

P 212202Z MAR 75

FM SECSTATE WASHDC

TO AMEMBASSY LONDON PRIORITY

AMEMBASSY PARIS PRIORITY

USMISSION GENEVA PRIORITY

UNCLAS STATE 064724

E.O. 11652: N/A

TAGS: EAIR, UK, FR, SZ

SUBJECT: DOT MEETING ON CHARTER RATES

A. THE DEPARTMENT OF TRANSPORTATION REQUESTS THAT
FOLLOWING MESSAGE BE PASSED TO APPROPRIATE ADDRESSEE

INDICATED IN PARAGRAPH B AT END OF CABLE.

BEGIN TEXT:

THE U.S. DEPARTMENT OF TRANSPORTATION HAS LONG BEEN
CONCERNED THAT THE USE OF NON-COMPENSATORY CHARTER
RATES THREATENS THE AVAILABILITY OF LOW-COST AIR
CHARTER TRANSPORTATION ACROSS THE NORTH ATLANTIC.
IT IS THE POSITION OF THE DOT THAT CHARTER RATES
SHOULD BE COMPENSATORY AND THAT THE CIVIL AERONAUTICS
BOARD SHOULD USE ITS RECENT AUTHORIZED LEGISLATIVE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 064724

AUTHORITY TO SUSPEND AND REJECT NON-COMPENSATORY

CHARTER RATES.

DOT HAS JUST COMPLETED A STUDY OF THE CRITERIA AND
PROCEDURE TO BE APPLIED IN DETERMINING WHETHER A
CHARTER RATE IS COMPENSATORY. A COPY OF THE RESULTS

OF THIS ANALYSIS IS ENCLOSED, AND WE WOULD WELCOME YOUR
REACTION TO IT.

A DISCUSSION OF THE DOT ANALYSIS AND ITS RECOMMENDATIONS
WILL BE HELD AT THE NASSIF BUILDING, 400 7TH STREET,
S.W., WASHINGTON, D.C. 20590, ON FRIDAY, MARCH 28,
1975, AT 2:00 P.M., IN ROOM 10234. AT THAT TIME, YOU
WILL BE AFFORDED AN OPPORTUNITY TO COMMENT ON THE
ANALYSIS. PLEASE INFORM MR. JOHN M. LICARI OF MY STAFF
(202-426-0577) IF YOU OR YOUR REPRESENTATIVE PLANS TO
ATTEND.

SINCERELY,

ROBERT HENRI BINDER
ASSISTANT SECRETARY FOR POLICY,
PLANS, AND INTERNATIONAL AFFAIRS

ENCLOSURE: CRITERIA PROPOSED BY THE U.S. DEPARTMENT
OF TRANSPORTATION TO DETERMINE THE COMPENSATORY NATURE
OF NORTH ATLANTIC CHARTER RATES

IN ORDER TO STABILIZE THE NORTH ATLANTIC CHARTER MARKET,
ENSURE THAT THE LOWEST RATES OF THE MOST EFFICIENT
CARRIERS ARE COMPENSATORY, AND REDUCE CHARTER OPERATOR
LOSSES, THE DEPARTMENT OF TRANSPORTATION HAS CONDUCTED
AN INTENSIVE STUDY OF CHARTER COSTS, REVENUES, AND
PRICING POLICIES. AS A RESULT OF THIS ANALYSIS, DOT
URGES CHARTER OPERATORS TO FILE THEIR TARIFFS AT LEVELS
NO LOWER THAN THEIR UNIT DIRECT OPERATING EXPENSE, BUT
WOULD PERMIT CHARTER OPERATORS TO FILE TARIFFS BELOW
SUCH EXPENSES IF THE TARIFFS ARE FILED TO MEET THE
COMPETITION OF A COMPENSATORY CHARTER RATE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 064724

IN DETERMINING WHAT CONSTITUTES A MINIMUM COMPENSATORY
RATE LEVEL, OUR ANALYSIS CONCLUDES THAT ALL CHARTER
RATES SHOULD AT LEAST COVER THE CARRIER'S DIRECT OPERATING
EXPENSE PER SEAT MILE. SPECIFICALLY, THESE EXPENSES
ARE DEFINED AS COMPRISING THE FOLLOWING CAB FORM 41
EXPENSE CLASSIFICATIONS:

SCHEDULE P1 ACCOUNT 5100 FLYING OPERATIONS

SCHEDULE P1 ACCOUNT 5400 MAINTENANCE
SCHEDULE P1 ACCOUNT 5500 PASSENGER SERVICING
SCHEDULE P1 ACCOUNT 6400 AIRCRAFT AND TRAFFIC SERVICING
SCHEDULE P1 ACCOUNT 6700 PROMOTION AND SALES
SCHEDULE P1 ACCOUNT 6800 GENERAL AND ADMINISTRATIVE

A MINIMUM COMPENSATORY FERRY RATE PER SEAT MILE WOULD BE BASED ON THE ABOVE COSTS LESS PASSENGER SERVICING EXPENSE.

ALTHOUGH CHARTER RATES BASED SOLELY ON THE ABOVE COSTS WOULD RESULT IN A YEAR-END LOSS FOR A CARRIER, THE DEPARTMENT OF TRANSPORTATION DOES NOT EXPECT ANY CARRIER TO PEG ALL OF ITS RATES AT THAT LEVEL. HOWEVER, PRICING POLICY SHOULD NOT PRECLUDE ALLOWING CHARTER RATES TO FALL TO DIRECT OPERATING EXPENSE LEVELS--A POSSIBLE EQUILIBRIUM IN PERIODS OF DWINDLING DEMAND AND EXCESS CAPACITY. THE APPROACH DESCRIBED WOULD ALLOW CHARTER RATES TO BE DETERMINED SOLELY BY MARKET FORCES EXCEPT THAT CARRIERS COULD NOT PRICE BELOW UNIT DIRECT OPERATING EXPENSE UNLESS IT WAS MEETING THE COMPETITION OF A LOWER COMPENSATORY RATE.

IN APPLICATION, THE DEPARTMENT OF TRANSPORTATION BELIEVES THAT THE ABOVE CRITERIA SHOULD BE EMPLOYED AS FOLLOWS:

1. IN ORDER TO DETERMINE DIRECT OPERATING EXPENSE FOR TRANSATLANTIC CHARTER OPERATIONS, U.S. SUPPLEMENTAL CARRIERS SHOULD FILE THEIR FORM 41 REPORTS BY GEOGRAPHIC DIVISION (AS PER SCHEDULED CARRIER REPORTING REQUIREMENTS), WHILE SCHEDULED CARRIERS WOULD BE REQUIRED TO ALLOCATE THEIR DIVISIONAL COSTS BY SCHEDULED AND CHARTER SERVICES. IN ADDITION, ALL CARRIERS SHOULD ALLOCATE

UNCLASSIFIED

PAGE 04 STATE 064724

COSTS BY PASSENGER AND CARGO OPERATIONS. AN ADEQUATE EXPLANATION OF FORECASTING ASSUMPTIONS WOULD ALSO BE NECESSARY IF A CARRIER PROJECTS CERTAIN COSTS TO JUSTIFY ITS TARIFF FILING. FOREIGN CARRIERS ENGAGED IN TRANSATLANTIC CHARTER FLIGHTS WOULD BE REQUIRED TO ACCOMPANY THEIR TARIFFS WITH COMPARABLE COST, REVENUE, AND TRAFFIC DATA.

2. THE DEPARTMENT OF TRANSPORTATION WILL CONSIDER A CHARTER RATE COMPENSATORY AND NOT DESERVING SUSPENSION AS LONG AS IT IS NOT BELOW THE CARRIER'S OWN UNIT DIRECT OPERATING EXPENSE. THIS CRITERION WILL APPLY TO ALL RATES IN A CARRIER'S TARIFF WITH THE EXCEPTION OF FERRY RATES. FERRY RATES SHOULD BE NO LOWER THAN UNIT DIRECT OPERATING EXPENSE LESS PASSENGER SERVICING EXPENSE.

3. EVEN IF NOT COMPENSATORY, THE DEPARTMENT OF TRANSPORTATION WOULD NOT CONSIDER A CHARTER RATE DESERVING SUSPENSION IF THE CARRIER WERE FILING IT TO MEET THE COMPETITION OF A COMPENSATORY RATE.

4. ANY TARIFF FILED WOULD BE CONSIDERED PRIMA FACIE COMPENSATORY. THE BURDEN OF PROOF IN DETERMINING THE NON-COMPENSATORY NATURE OF A TARIFF IS PLACED ON THE COMPLAINANT.

END OF TEXT.

B. ADDRESSEES ARE:

MR. F. A. LAKER
MANAGING DIRECTOR
LAKER AIRWAYS LTD.
LONDON (GATWICK) AIRPORT
HORLEY, SURREY, ENGLAND

MR. V. VERES
PRESIDENT, EUROPEAN CIVIL AVIATION CONFERENCE
C/O ICAO EUROPEAN OFFICE
3 BIS, VILLA EMILE BERGERAT
92200 NERILLY-SUR-SEINE
UNCLASSIFIED

UNCLASSIFIED

PAGE 05 STATE 064724

FRANCE

MR. A. HELGSTRAND
PRESIDENT
INTERNATIONAL AIR CARRIER ASSOCIATION
P.O. BOX 105
1215 GENEVA 15 AIRPORT
SWITZERLAND INGERSOLL

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CIVIL AVIATION, AIR FARES, SUPPLEMENTAL AIRLINES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE064724
Document Source: CORE
Document Unique ID: 00
Drafter: JCOOK:JO
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750100-0590
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750326/aaaaaxgb.tel
Line Count: 209
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: woolflhd
Review Comment: n/a
Review Content Flags:
Review Date: 23 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 SEP 2003 by greeneet>; APPROVED <30 DEC 2003 by woolflhd>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DOT MEETING ON CHARTER RATES A. THE DEPARTMENT OF TRANSPORTATION REQUESTS THAT
TAGS: EAIR, UK, FR, SZ, DOT
To: LONDON GENEVA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006